

Message Text

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FM SECSTATE WASHDC

TO ALL DIPLOMATIC AND CONSULAR POSTS

USNMR SHAPE

USCG FOR POLAD

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XMT AMEMBASSY TUNIS

AMEMBASSY NDJAMENA

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INFORM CONSULS, SHAPE FOR BEERS INTAF

E.O. 11652: N/A

TAGS: EAGR/EAID

SUBJECT: CURRENT ECONOMIC DEVELOPMENTS: U.S. FOOD POLICY

1. SUMMARY. THE U.S. IS TRYING TO MAINTAIN THE MOMENTUM
CREATED AT THE WORLD FOOD CONFERENCE (WFC) TO ESTABLISH
EFFECTIVE INTERNATIONAL COOPERATION ON FOOD. THE
PROSPECTIVE IMPROVEMENT IN THE GLOBAL FOOD SUPPLY/DEMAND

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BALANCE IN 1975/76 MAY LULL NATIONS INTO COMPLACENCY AND
DELAY ACTION, MAKING FUTURE ADJUSTMENTS MORE ONEROUS WHEN
SHORTAGE SITUATIONS REOCCUR. IN OUR FOOD STRATEGY, WE ARE
GIVING PRIORITY TO ACHIEVING INTERNATIONAL AGREEMENT ON

ACTION IN THE FOLLOWING AREAS: (1) INCREASING FOOD PRODUCTION IN THE LDCS; (2) MAINTAINING A REASONABLE LEVEL OF FOOD AID FOR NEEDY COUNTRIES IN THE INTERIM YEARS; (3) ESTABLISHING A WORLD FOOD SECURITY RESERVE AND (4) ACHIEVING SUBSTANTIAL REDUCTION IN BARRIERS TO AGRICULTURAL TRADE. THESE ELEMENTS OF OUR STRATEGY ARE ELABORATED BELOW. END SUMMARY.

2. PRODUCTION SHORT-FALLS AND HIGH PRICES FOR FOOD DURING THE PAST THREE YEARS CREATED WAVE OF ALARM ABOUT LONGER TERM WORLD FOOD PROSPECTS. ALTHOUGH MOST EXPERTS AGREE THAT SUDDEN SHIFT IN GLOBAL SUPPLY/DEMAND BALANCE WAS

BROUGHT ABOUT BY TRANSITORY FACTORS, ONE LONGER-RUN CONSEQUENCE HAS BEEN HEIGHTENED INTERNATIONAL CONCERN ABOUT ASSURING PRODUCTION AND AVAILABILITY OF ADEQUATE FOOD SUPPLIES WORLD-WIDE. THE WORLD FOOD CONFERENCE (WFC) HELD IN ROME IN NOVEMBER 1974 AND ITS FOLLOW-UP INSTITUTIONS HAVE BEEN PRIMARY MEANS FOR FOCUSING THIS GENERAL CONCERN.

3. INTERNAL USG INSTITUTIONAL MECHANISM FOR FOLLOWING UP 22 WFC RECOMMENDATIONS IS INTERNATIONAL FOOD REVIEW GROUP (IFRG), ESTABLISHED AT DIRECTION OF THE PRESIDENT AS CONFERENCE WAS BEING HELD. GROUP, COMPOSED OF THE HEADS OF EIGHT WASHINGTON AGENCIES, IS CHAIRED BY THE SECRETARY OF STATE, AND THE SECRETARY OF AGRICULTURE IS VICE-CHAIRMAN. FUNCTIONING UNDER REVIEW GROUP IS PARALLEL WORKING GROUP AT ASSISTANT SECRETARY LEVEL.

4. SINCE NOVEMBER, WE HAVE STRESSED DEVELOPMENT OF POLICY, THROUGH MECHANISM OF IFRG, IN THREE AREAS: (1) INCREASING FOOD PRODUCTION IN THE LDCS; (2) PROVIDING A REASONABLE LEVEL OF FOOD AID UNTIL LDC AND CROP PRODUCTION DEFICITS CAN BE MADE UP; (3) ESTABLISHING A WORLD FOOD SECURITY RESERVE SYSTEM. THESE THREE AREAS RECEIVED PRIME EMPHASIS AT WFC. LIBERALIZATION OF AGRICULTURAL TRADE, OUR FOURTH LIMITED OFFICIAL USE
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OBJECTIVE, IS BEING PRESSED IN THE MTN. IT COULD ALSO BE AN ELEMENT IN OUR FOOD SECURITY RESERVE SYSTEM.

5. INCREASING FOOD PRODUCTION IN LDCS. THE HEART OF THE FOOD PROBLEM IS WIDENING DISPARITY BETWEEN LDC PRODUCTION AND REQUIREMENTS OF STILL RAPIDLY GROWING POPULATION. LDC IMPORT REQUIREMENTS ARE CURRENTLY RUNNING AT ABOUT 25 MILLION TONS OF GRAIN ANNUALLY. UN PROJECTIONS SHOW THIS GROWING TO AS MUCH AS 85 MILLION TONS BY 1985; USDA'S WORST CASE ESTIMATE IS ABOUT 10 MILLION TONS LESS. WHILE MAJOR GRAIN EXPORTERS, MAINLY NORTH AMERICA, COULD PRODUCE SUCH QUANTITIES, FINANCING, TRANSPORTING, UNLOAD-

ING AND DISTRIBUTING THEM WOULD BE DIFFICULT, PERHAPS IMPOSSIBLE, TASK. THIS IS SO-CALLED FOOD GAP, ABOUT ONE-THIRD OF WHICH IS ACCOUNTED FOR BY SOUTH ASIA.

6. TODAY LDCS CULTIVATE 35 PERCENT MORE LAND THAN DEVELOPED COUNTRIES BUT PRODUCE 30 PERCENT LESS FOOD. PARADOXICALLY, LDCS POSSESS GREATEST CAPACITY FOR INCREASING CROP YIELDS AND OVERALL OUTPUT OVER NEXT SEVERAL DECADES. SOLUTION TO FOOD PROBLEM THEREFORE LIES IN TAPPING POTENTIAL OF DEVELOPING COUNTRIES IN TERMS OF UNDERUTILIZED LAND AND WATER WHICH, IF COMBINED WITH OTHER INPUTS SUCH AS FERTILIZER, IMPROVED SEED VARIETIES AND PROPER PRODUCTION INCENTIVES, COULD BRING ABOUT MULTIPLE

INCREASES IN AVERAGE CROP YIELDS.

7. TO HELP ACCOMPLISH THIS, U.S. IS GIVING HIGHER PRIORITY IN ITS FOREIGN ASSISTANCE PROGRAM TO AGRICULTURE, NUTRITION AND RURAL DEVELOPMENT. IN FY-1975, DOLS. 476 MILLION IS PROGRAMMED FOR THESE PURPOSES COMPARED TO DOLS. 306 MILLION IN FY-1974, AND APPROPRIATION OF DOLS. 679 MILLION IS REQUESTED FOR FY-1976. IN FY-1976, DISBURSEMENTS FOR THESE PURPOSES WILL ACCOUNT FOR OVER 60 PERCENT OF AID'S PROPOSED BILATERAL DEVELOPMENT ASSISTANCE PROGRAM, IN CONTRAST WITH ONLY 35 PERCENT IN FY-1974. IN ADDITION, IBRD, AMONG MULTILATERAL LENDING INSTITUTIONS, RECENTLY DECIDED TO DOUBLE LOANS FOR RURAL DEVELOPMENT OVER NEXT FIVE YEARS.

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8. APART FROM ENCOURAGING HIGHER PRIORITY FOR AGRICULTURAL DEVELOPMENT IN EXISTING BILATERAL AND MULTILATERAL AID PROGRAMS, WFC RECOMMENDED TWO NEW INSTITUTIONS TO DEAL WITH THIS PROBLEM--CONSULTATIVE GROUP ON FOOD PRODUCTION AND INVESTMENT (CGFPI) AND INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (IFAD). CGFPI--SET UP UNDER THE AUSPICES OF IBRD, FAO AND UNDP--WILL HAVE FIRST MEETING IN JULY. ITS PURPOSE IS TO PROVIDE A MECHANISM FOR LINKING OVERALL DEVELOPMENT POLICIES TO FUNDING. A PRIMARY TASK OF THIS GROUP WILL BE DEVELOPMENT OF GLOBAL FOOD PRODUCTION PLAN SETTING NATIONAL STANDARDS OF ACHIEVEMENT FOR KEY COUNTRIES, AND TO EXTENT POSSIBLE, MATCHING AVAILABLE FINANCIAL RESOURCES--DOMESTIC AND EXTERNAL--TO NATIONAL DEVELOPMENT PROGRAMS TO ASSURE THAT THESE NATIONAL STANDARDS ARE MET. IFAD WAS INITIALLY PROPOSED BY OPEC COUNTRIES, WON BROAD SUPPORT, AND WAS ADOPTED BY WFC. PROPOSED FUND MAY BE USEFUL MECHANISM FOR SECURING SIGNIFICANT FINANCIAL CONTRIBUTIONS FROM OIL EXPORTERS. SAUDI ARABIA, UAE, AND VENEZUELA, IN PARTICULAR, HAVE SHOWN POSITIVE INTEREST.

9. U.S. HAS ANNOUNCED ITS WILLINGNESS TO PARTICIPATE IN THE CREATION OF IFAD. BUT WE ARE SEEKING TO GAIN CREDIT FOR SHARPLY INCREASING BILATERAL US AGRICULTURAL ASSISTANCE BY ATTRIBUTING AS CONTRIBUTION TO IFAD INCREASES OVER SOME BASE YEAR SUCH AS FY-1974 IN FUNDS DEVOTED TO AGRICULTURAL DEVELOPMENT IN OUR BILATERAL PROGRAMS. STRUCTURE AND MECHANICS OF IFAD, INCLUDING SIZE OF SUBSCRIPTION AND RULES FOR ATTRIBUTION OF FUNDING, REMAIN TO BE WORKED OUT. INITIAL MULTILATERAL CONSULTATION ON IFAD, HELD IN EARLY MAY, ESTABLISHED WORKING GROUP COMPOSED OF DAC, OPEC, AND LDC REPRESENTATIVES, WHICH WILL BEGIN MEETING IN ROME AT END JUNE.

10. OVERALL, US OBJECTIVE IS TO INCREASE ANNUAL RATE OF GROWTH IN LDC FOOD PRODUCTION FROM CURRENT 2.5 TO 3.5 PERCENT OVER NEXT TEN YEARS. WFC ESTIMATED THIS WOULD REQUIRE ANNUAL EXTERNAL INVESTMENT IN LDC AGRICULTURE OF DOLS. 5 BILLION--AS COMPARED WITH PRESENTLY ESTIMATED FLOW OF DOLS. 1.5 BILLION.

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11. FOOD AID. UNTIL MAJOR EXPANSION OF LDC PRODUCTION IS ACHIEVED, PL 480 WILL CONTINUE TO BE NECESSARY PROGRAM BOTH TO MEET EMERGENCY AND DISASTER REQUIREMENTS AND TO REDUCE FINANCIAL BURDEN OF COMMERCIAL IMPORTS FOR POORER COUNTRIES. OUR OVERALL RECORD IS GOOD. IN THE 1960S WE AVERAGED 15 MILLION TONS OF FOOD AID IN GRAINS PER YEAR; SINCE 1970 THE AVERAGE IS 7.5 MILLION TONS; IN ONLY ONE YEAR OF PAST TWENTY HAVE WE PROVIDED LESS THAN 4 MILLION TONS (FY-74). THIS YEAR WE HAVE PROVIDED OVER 5 MILLION TONS OF FOOD AID, AND WE EXPECT TO INCREASE LEVEL TO 6 MILLION TONS IN FY-76. THE ADMINISTRATION SUPPORTS WFC'S GLOBAL TARGET OF 10 MILLION TONS OF FOOD AID ANNUALLY AND SECRETARY KISSINGER HAS STATED TWICE IN RECENT WEEKS THAT US WILL MAKE EVERY EFFORT TO PROVIDE AT LEAST 4 MILLION TONS OF THAT TOTAL ON CONTINUING BASIS.

12. TIGHT GRAIN SUPPLY SITUATION AND LOWER FOOD AID LEVELS OF PAST TWO YEARS HAVE SPARKED SUBSTANTIAL CONGRESSIONAL CRITICISM AND RE-EXAMINATION OF THE PL 480 PROGRAM. FOOD AID DEBATE HAS BEEN ONE ELEMENT IN THE EXECUTIVE/LEGISLATIVE STRUGGLE OVER FOREIGN POLICY, AND FOOD AID TO INDOCHINA CONSTITUTED A FOCAL POINT OF ATTACK. WITH THIS PROBLEM BEHIND US AND WITH PROSPECT OF RECORD 1975 HARVESTS, WE EXPECT IMPROVED RELATIONS WITH THE HILL ON PL 480 MATTERS. A LARGE NUMBER OF BILLS AMENDING PL 480 LEGISLATION ARE IN THE HOPPER, INCLUDING ONE BY SENATOR HUMPHREY WHICH CONTAINS MUCH EXECUTIVE BRANCH CAN SUPPORT, INCLUDING GREATER FLEXIBILITY TO CONTINUE FOOD

AID IN SHORT SUPPLY SITUATIONS. MAIN INNOVATIONS ARE NEW TITLE III, WHICH WOULD GIVE PREFERRED STATUS FOR CONCESSIONAL SALES TO COUNTRIES WITH EFFECTIVE AGRICULTURAL DEVELOPMENT PLANS, AND NEW TITLE V CREATING SMALL CCC-HELD RESERVE FOR EMERGENCY NEEDS. HEARINGS ON HUMPHREY BILL ARE NOT LIKELY BEFORE SEPTEMBER.

13. WORLD FOOD SECURITY RESERVE SYSTEM. OVER PAST THREE YEARS POOR HARVESTS IN SOME KEY COUNTRIES, CONTINUED HIGH LEVEL OF WORLD GRAIN CONSUMPTION, AND RESULTING DRAWDOWN OF TRADITIONAL NORTH AMERICAN GRAIN STOCKS, HAVE SHARPENED WORLD'S AWARENESS OF ITS VULNERABILITY TO FOOD EMERGENCIES. BEGINNING WITH PRESIDENT'S STATEMENT TO UN IN SEPTEMBER LIMITED OFFICIAL USE
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1974 AND SECRETARY'S PROPOSAL AT WFC, US HAS TAKEN LEAD IN

SEEKING ESTABLISHMENT OF EFFECTIVE INTERNATIONAL SYSTEM OF NATIONALLY-HELD GRAIN RESERVES TO ALLEVIATE WORLD SHORTAGES IN BAD CROP YEARS AND REDUCE PRESSURE ON SUPPLY AND MARKETS. WHILE WE ARE STILL IN PROCESS OF DEVELOPING U.S. POSITION ON SPECIFIC ASPECTS OF RESERVES SYSTEM, WE ARE ALSO MAKING CONCENTRATED EFFORTS TO CONVINCE OTHER MAJOR EXPORTERS AND IMPORTERS OF NEED FOR SUCH A SYSTEM.

14. SECRETARY LISTED PRINCIPLES WE BELIEVE ESSENTIAL TO RESERVES SYSTEM IN SPEECHES AT KANSAS CITY (MAY 13) AND BEFORE OECD IN PARIS (MAY 28). INTERAGENCY CONSIDERATION OF HOW THESE PRINCIPLES WOULD BE EXPRESSED IN PROVISIONS OF AGREEMENT IS CONTINUING. U.S. POSITION NECESSARILY INTENDED TO SERVE INTERESTS OF US PRODUCERS AND CONSUMERS AS WELL AS MEET OBJECTIVE OF ASSURING AVAILABILITY OF ADEQUATE SUPPLIES. PRINCIPLES QUOTED FROM MAY 28 SPEECH LISTED BELOW, FOLLOWED IN EACH CASE BY CLARIFICATION OF OUTSTANDING ISSUES.

15. QUOTE FIRST, TOTAL WORLD RESERVES MUST BE LARGE ENOUGH TO MEET POTENTIAL SHORTFALLS IN FOOD GRAINS PRODUCTION UNQUOTE. AT WFC US REFERRED TO RESERVES OF UP TO 60 MILLION TONS OF GRAIN, WHICH WE ESTIMATED TO MEET 95 PERCENT OF POTENTIAL SINGLE YEAR PRODUCTION SHORTFALLS OF ALL GRAINS, FEED AS WELL AS FOOD. ROUGHLY HALF THIS AMOUNT PROBABLY ADEQUATE TO COVER SHORTFALLS OF WHEAT AND RICE, THE PRIMARY FOOD GRAINS. INCLUSION OF RICE, HOWEVER, RAISES NUMBER OF PROBLEMS, AMONG THEM, INADEQUATE PRODUCTION DATA. RESERVE MIGHT ALSO INCLUDE PROVISIONS FOR COARSE GRAINS USED FOR FOOD.

16. QUOTE SECOND, GRAIN EXPORTERS AND IMPORTERS SHOULD AGREE ON FAIR ALLOCATION OF RESERVE HOLDINGS, TAKING INTO ACCOUNT WEALTH, PRODUCTIVE CAPACITY AND VOLUME OF TRADE

UNQUOTE. IN PAST, U.S. AND CANADA HAVE HELD ALMOST ALL
OF WORLD'S GRAIN RESERVES AS RESULT OF DOMESTIC FARM
SUPPORT PROGRAMS. THESE RESERVES NO LONGER EXIST, AND
PRESENT FARM PROGRAMS LIKELY TO BE MORE EFFECTIVE IN
PREVENTING ACCUMULATION OF UNWANTED SURPLUSES. WE ARE,
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HOWEVER, PREPARED TO HOLD IMPORTANT PART OF ANY AGREED
WORLD RESERVE IN COOPERATION WITH OTHER NATIONS. SHARING
OF COST BURDEN OF RESERVES IS KEY POINT IN U.S. POSITION.
IN AGREEING ON SIZE OF RESERVE HOLDINGS, WE WOULD TAKE
ACCOUNT NOT ONLY OF COUNTRIES' SHARE IN GRAIN TRADE AND
COUNTRIES' WEALTH BUT ALSO VARIABILITY OF GRAIN PRO-
DUCTION. THUS, USSR GRAIN OUTPUT HISTORICALLY DEVIATES
FROM TREND TO FAR GREATER DEGREE THAN IS CASE FOR OTHER
PRODUCING COUNTRIES AND IS MAJOR FACTOR IN INSTABILITY OF
WORLD SUPPLY.

17. QUOTE THIRD, THERE SHOULD BE AGREED INTERNATIONAL
RULES OR GUIDELINES TO ENCOURAGE MEMBERS TO BUILD UP
RESERVES IN TIMES OF GOOD HARVEST UNQUOTE. SEE COMMENTS
FOR FIFTH POINT.

18. QUOTE FOURTH, EACH PARTICIPATING COUNTRY SHOULD BE
FREE TO DETERMINE HOW ITS RESERVES WILL BE MAINTAINED AND
WHAT INCENTIVES WILL BE PROVIDED FOR THEIR BUILDUP AND
MAINTENANCE UNQUOTE. RESERVES WOULD BE NATIONALLY-HELD
AND WOULD NOT BE PART OF INTERNATIONALLY CONTROLLED BUFFER
STOCK. IN US CASE, SECRETARY OF AGRICULTURE ALREADY HAS
SUFFICIENT AUTHORITY TO BUILD, HOLD AND DRAW DOWN RESERVES,
EITHER THROUGH INCENTIVES TO FARMERS OR THROUGH GOVERNMENT
OWNERSHIP. PRESENT U.S. POLICY IS TO RELY ON STOCKS HELD
BY FARMERS AND AVOID GOVERNMENT-OWNED STOCKS, BUT LATTER
OPTION REMAINS AVAILABLE IF CIRCUMSTANCES WARRANT ITS USE.

19. QUOTE FIFTH, RULES OR GUIDELINES SHOULD BE AGREED FOR
THE DRAW-DOWN OF RESERVES, TRIGGERED BY SHORTFALLS IN
WORLD PRODUCTION. THERE MUST BE A CLEAR PRESUMPTION THAT
ALL MEMBERS WILL MAKE RESERVES AVAILABLE WHEN NEEDED AND,
CONVERSELY, THAT RESERVES WILL NOT BE RELEASED PREMATURE-
LY OR EXCESSIVELY, THEREBY DEPRESSING MARKET PRICES
UNQUOTE. THIS, TOGETHER WITH ITEMS THREE AND SIX,
ENCOMPASS KEY OPERATIVE PROVISIONS OF RESERVES AGREEMENT,
AND CONSEQUENTLY, MAJOR AREA OF DISPUTE. QUESTION OF
DEGREE OF COMMITMENT, I.E. IS AGREEMENT TO BE BASED ON
FORMAL RULES OR LOOSE GUIDELINES, HAS YET TO BE RESOLVED
WITHIN USG. AGREEMENT INVOLVING LARGE DEGREE OF COMMIT-
MENT BY PARTICIPANTS IS EXPECTED TO BETTER ENSURE AVAILA-
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BILITY OF RESERVES WHEN NEEDED AND PREVENT THEIR UNWARRANTED RELEASE. LATTER POINT IS OF PARTICULAR INTEREST TO U.S. PRODUCERS CONCERNED ABOUT PRICE-DEPRESSING EFFECT OF LARGE STOCKS. IN PRACTICE, HOWEVER, IT COULD PROVE TOO RIGID, OBLIGATING PARTICIPANTS TO INAPPROPRIATE ACTIONS ON THE BASIS OF PREDETERMINED RULES. INTERNATIONAL DISCUSSIONS SO FAR HAVE CONCENTRATED ON TRIGGER MECHANISM, WITH US ADVOCATING TRIGGER BASED ON CHANGES IN WORLD PRODUCTION OR SUPPLY AND MOST OTHER NATIONS FAVORING USE OF PRICE MOVEMENTS TO TRIGGER ACCUMULATION OR RELEASE OF RESERVES. UNDERLYING THIS IS STRONG PREFERENCE OF SOME OTHER COUNTRIES FOR TRADITIONAL COMMODITY AGREEMENT APPROACH TO STABILIZE PRICES, WHICH WE OPPOSE IN PART BECAUSE WE BELIEVE PRICE STABILIZATION AGREEMENT WOULD SET PRICE RANGE AT LEVEL THAT WOULD STIMULATE EXCESS PRODUCTION AT EXPENSE OF EFFICIENT PRODUCERS.

20. QUOTE SIXTH, IN TIMES OF SHORTAGE THE SYSTEM MUST ASSURE ACCESS TO SUPPLIES FOR PARTICIPATING COUNTRIES UNQUOTE. ASSURED ACCESS TO SUPPLIES IS PRINCIPAL BENEFIT OF RESERVES AGREEMENT TO IMPORTERS, BUT INTERAGENCY AGREEMENT NOT YET REACHED ON HOW THIS ASSURANCE WOULD BE PROVIDED. ONE POSSIBILITY WOULD BE COMMITMENT BY EXPORTERS TO REFRAIN FROM USE OF EXPORT CONTROLS AGAINST OTHER PARTICIPANTS IN TIMES OF SHORTAGE. LACK OF SUCH ASSURANCE COULD BE DECIDING FACTOR IN CONVINCING COUNTRIES SUCH AS USSR TO JOIN AND HOLD THEIR FAIR SHARE OF RESERVES.

21. QUOTE SEVENTH, THERE MUST BE SPECIAL PROVISIONS TO MEET THE NEEDS OF THE POORER COUNTRIES UNQUOTE. U.S. AND OTHER DEVELOPED COUNTRIES SEEM TO AGREE THAT RESERVES AND FOOD AID SHOULD BE TREATED SEPARATELY, WITH RESERVES AGREEMENT COMPLEMENTING FOOD AID PROGRAMS. RESERVES AGREEMENT WHICH EFFECTIVELY MEETS SHORT SUPPLY SITUATIONS WOULD ALSO ASSURE AVAILABILITY OF QUANTITIES NEEDED FOR FOOD AID. AGREEMENT COULD ALSO CONTAIN SPECIAL PROVISIONS TO REDUCE OR ELIMINATE RESERVE HOLDING RESPONSIBILITIES OF SMALLER LDCS WHILE ALLOWING THEM TO RETAIN SUPPLY ACCESS BENEFITS.

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22. QUOTE FINALLY, THE SYSTEM MUST ENCOURAGE EXPANDED AND LIBERALIZED TRADE IN GRAINS UNQUOTE. AN EFFECTIVE RESERVE SYSTEM WOULD REDUCE JUSTIFICATION FOR TRADE BARRIERS IN GRAINS BY GIVING IMPORTERS GREATER ASSURANCE THAT ADEQUATE SUPPLIES WILL BE AVAILABLE IN SHORT SUPPLY SITUATIONS, BOTH FROM DOMESTIC STOCKS AND FROM ABROAD. INTER-AGENCY

AGREEMENT NOT YET REACHED ON DESIRABILITY OF INCLUDING SPECIFIC TRADE PROVISIONS SUCH AS THOSE PROHIBITING USE OF EXPORT CONTROLS AGAINST OTHER PARTICIPANTS IN PERIODS OF SHORTAGE, PROHIBITING OR LIMITING USE OF EXPORT SUBSIDIES FOR GRAINS IN PERIODS OF SURPLUS, AND REQUIRING MEMBER IMPORTERS TO DRAW IMPORTS FROM OTHER MEMBERS IN TIMES OF SURPLUS. AGREEMENT, PARTICULARLY TO EXTENT IT CONTAINS SUCH TRADE-RELATED PROVISIONS, ALSO EVENTUALLY LIKELY TO BE LINKED WITH MTN IN GENEVA.

23. AS POSSIBLE ALTERNATIVE TO ABOVE GLOBAL APPROACH, SOME SUPPORT EXISTS WITHIN USG FOR LIMITED RESERVE OF ABOUT 15 MILLION TONS. THE PURPOSE OF THIS MORE LIMITED RESERVE WOULD BE TO PROTECT LDCS FROM RUN-UP IN PRICE OF THEIR GRAIN IMPORTS IN TIME OF WORLD SHORTAGE. AT SUCH TIME, GRAIN FROM RESERVE WOULD BE SOLD TO LDCS ON CONCESSIONAL TERMS TO OFFSET THEIR ADDITIONAL FOREIGN EXCHANGE EXPENDITURE. WHILE THIS WOULD AVOID MANY DIFFICULTIES OF GLOBAL SYSTEM, IT WOULD NOT PROVIDE

ADEQUATE RESERVES TO MEET NEEDS OF DEVELOPED COUNTRIES. DEVELOPED IMPORTING COUNTRIES, IN PARTICULAR, WOULD FIND LITTLE INCENTIVE TO PARTICIPATE IN LIMITED SYSTEM, SEEING IT ONLY AS ANOTHER FORM OF FOOD AID.

24. U.S. BEGAN EFFORTS TO PROMOTE RESERVES SYSTEM AMONG OTHER COUNTRIES AT WFC. IN FEBRUARY, WE CONVENED AD HOC MEETING OF NINE OTHER MAJOR CEREALS PRODUCING, CONSUMING, AND TRADING COUNTRIES AND EUROPEAN COMMUNITY TO EXPLORE POSSIBLE ELEMENTS OF GRAIN RESERVES SYSTEM. MEETING INCLUDED USSR, BUT NOT PRC WHICH DID NOT ACCEPT INVITATION. AS RESULT OF THE U.S. INITIATIVE, WORK ON TECHNICAL ASPECTS OF POSSIBLE RESERVES AGREEMENT--SUCH AS DEVELOPMENT OF OBJECTIVE INDICATORS FOR SIGNALLING ACQUISITION LIMITED OFFICIAL USE
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AND RELEASE OF NATIONAL STOCKS--INCLUDED IN MANDATE OF INTERNATIONAL WHEAT COUNCIL (IWC) PREPARATORY GROUP WHICH IS EXAMINING POSSIBLE BASES FOR NEW INTERNATIONAL WHEAT AGREEMENT. PREP GROUP CONCENTRATED ON RESERVES IN ITS TWO MEETINGS TO DATE (MARCH AND MAY) AND WILL REPORT PROGRESS TO NEXT REGULAR SESSION OF IWC BEGINNING JUNE 30. WE EXPECT GROUP TO BE ASKED TO CONTINUE DISCUSSIONS AND POSSIBLY PREPARE FOR NEGOTIATIONS. IN THESE DISCUSSIONS, OTHER MAJOR EXPORTERS, (CANADA, AUSTRALIA AND ARGENTINA) ALSO SUPPORTED RESERVES BUT TEND TOWARD PRICE-ORIENTED AGREEMENT. JAPAN APPEARS WILLING TO PARTICIPATE, AND USSR INDICATED INTEREST IN NEGOTIATING NEW WHEAT AGREEMENT WHICH COULD INCLUDE RESERVES PROVISIONS. EUROPEAN COMMUNITY'S POSITION LINKED CLOSELY TO MTN AND DESCRIBED BELOW. WHILE PREP GROUP DISCUSSIONS OPEN TO ALL MEMBERS

OF IWC, ONLY OTHER LDC'S ATTENDING WERE INDIA AND EGYPT. THEY CONCENTRATED ON PREFERENTIAL PRICES FOR LDC COMMERCIAL IMPORTS ON A REGULAR BASIS, RATHER THAN ON RESERVES.

25. ALSO SINCE WFC, UN FOOD AND AGRICULTURE ORGANIZATION (FAO) HAS OBTAINED AGREEMENT OF MOST COUNTRIES, INCLUDING U.S. (WITH SOME RESERVATIONS BY EC AND WITH USSR NOT PARTICIPATING) TO A LOOSE SET OF RULES ON RESERVES KNOWN AS INTERNATIONAL UNDERTAKING ON WORLD FOOD SECURITY. FAO NOW IN PROCESS OF INSTITUTIONALIZING UNDERTAKING THROUGH CREATION OF STANDING COMMITTEE ON WORLD FOOD SECURITY, AS RECOMMENDED BY WFC.

26. U.S. ATTEMPTING DEVELOP AGREED INTERAGENCY POSITION IN SUFFICIENT DETAIL TO BEGIN SUBSTANTIVE BILATERAL DISCUSSIONS WITH KEY COUNTRIES IN NEAR FUTURE AIMED AT NEGOTIATION LATER THIS YEAR OF FORMAL RESERVE SYSTEM. WE HOPE INTERNATIONAL AGREEMENT CAN BE REACHED ON BASIC ELEMENTS OF SYSTEM BY END OF YEAR TO ENABLE COUNTRIES

TO BEGIN ACCUMULATING RESERVES FROM COMING HARVEST.

27. TRADE LIBERALIZATION. OUR EFFORTS IN MTN TO ACHIEVE GREATER LIBERALIZATION OF AGRICULTURAL TRADE ALSO CONSTITUTE AN IMPORTANT ELEMENT OF U.S. FOOD STRATEGY. LIMITED OFFICIAL USE
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OUR INTEREST IS PARTICULARLY STRONG BECAUSE OF U.S. COMPARATIVE ADVANTAGE IN AGRICULTURE. WORLD ECONOMY GAINS AS WELL AS U.S. IF MORE EFFICIENT PRODUCERS ARE GIVEN GREATER SCOPE. INDEED, SOLUTION TO WORLD FOOD PROBLEMS DEPENDS ON GREATER EFFICIENCY AND RATIONALIZATION OF AGRICULTURAL PRODUCTION. EXISTING TRADE BARRIERS CONTRIBUTE TO SUBSTANTIAL DISTORTION OF WORLD AGRICULTURE. WE ARE PARTICULARLY CONCERNED ABOUT EC AGRICULTURAL REGIME WITH ITS RELIANCE ON HIGH SUPPORT PRICES WITHOUT PRODUCTION CONTROLS, AND ON EXPORT SUBSIDIES.

28. WHILE SEEKING TO NEGOTIATE LIBERALIZATION OF AGRICULTURAL TRADE IN THE MTN IN THE MAJOR FUNCTIONAL COMMITTEES WHICH HAVE BEEN ESTABLISHED ON TARIFFS, AND NON-TARIFF MEASURES, PARTICULARLY SUBSIDIES AND COUNTERVAILING DUTIES, WE HAVE ALSO AGREED TO A SPECIAL COMMITTEE ON AGRICULTURE WITH SUB-GROUPS ON GRAINS, MEAT AND DAIRY PRODUCTS. THE EC LOOKS TO THESE GROUPS TO DEVELOP STABILIZATION AGREEMENTS BUT WE WILL STRESS IMPORT LIBERALIZATION.

29. THE NEGOTIATIONS ON TRADE LIBERALIZATION ALSO TO SOME EXTENT OVERLAP WITH OUR EFFORTS ON GRAIN RESERVES AND HAVE

LED TO DISAGREEMENT WITH THE EUROPEAN COMMUNITY IN PARTICULAR ABOUT WHERE NEGOTIATIONS ON GRAINS SHOULD TAKE PLACE. U.S. TAKES VIEW THAT BECAUSE PACE OF MULTILATERAL TRADE NEGOTIATIONS IS LIKELY TO BE CONSIDERABLY SLOWER THAN OUR PROJECTED PACE FOR NEGOTIATIONS ON RESERVES AGREEMENT, AND BECAUSE THE SOVIET UNION IS NOT PARTICIPATING IN THE MTN BUT IS A MEMBER OF THE INTERNATIONAL WHEAT AGREEMENT, NEGOTIATIONS ON RESERVES SHOULD BE PURSUED INDEPENDENTLY IN INTERNATIONAL WHEAT COUNCIL. EC ORIGINALLY INSISTED THAT RESERVES NEGOTIATIONS TAKE PLACE IN MTN IN GENEVA, BUT MORE RECENTLY HAS AGREED AT LEAST TO PARTICIPATE ACTIVELY IN WORK ON GRAIN RESERVES IN THE IWC IN LONDON, BUT INSISTS THAT RESULTS OF LONDON DISCUSSIONS NEED TO BE FOLDED BACK INTO MTN RESULTS, SINCE THEY WISH TO ASSURE ANY CONCESSIONS THEY MAY MAKE REGARDING RESERVES (I.E., HOLDING MORE RESERVES) WILL BE FULLY CREDITED IN THE BROADER TRADE NEGOTIATIONS.

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30. CURRENT OUTLOOK. SINCE WFC IN NOVEMBER, GOOD PROGRESS HAS BEEN MADE ON SECURING INTERNATIONAL INSTITUTIONAL FRAMEWORK AND BASIC US POLICY DECISIONS NEEDED TO REACH

GOAL OF OVERCOMING WORLD HUNGER. HOWEVER, AS PREPARATIONS ARE MADE FOR FIRST SESSION OF WORLD FOOD COUNCIL JUNE 25-27 (COUNCIL IS 36-MEMBER, HIGH-LEVEL BODY RECOMMENDED BY WFC TO OVERSEE PROGRESS ON RESOLVING FOOD PROBLEM), THERE IS DISQUIETING EVIDENCE THAT INTERNATIONAL SENSE OF URGENCY IS BEGINNING TO WANE. GIVEN CURRENTLY FAVORABLE U.S. AND WORLD OUTLOOK FOR COMING 1975-76 GRAIN CROP, I.E. CROPS HARVESTED IN THE PERIOD JULY 1975-JUNE 1976, MOMENTUM MAY BE INCREASINGLY DIFFICULT TO SUSTAIN. WORLD MARKET FOR BASIC FOOD COMMODITIES HAS EASED CONSIDERABLY IN THE PAST SIX MONTHS, AND THERE HAVE BEEN WELL PUBLICIZED CANCELLATIONS OF SUPPLY CONTRACTS BY USSR, PRC AND OTHERS. PRICES FOR MOST COMMODITIES HAVE DECLINED STEADILY, WITH MOST IMPORTANT REDUCTIONS OCCURRING IN WHEAT AND SOYBEANS, ALTHOUGH THESE HAVE NOT BEEN LARGE ENOUGH TO OFFSET ENTIRELY SPECTACULAR GAINS MADE IN 1972 AND 1973. EVEN THOUGH IT IS TOO EARLY TO FORECAST WITH CERTAINTY, USDA ESTIMATES WORLD GRAIN PRODUCTION IN 1975/76 SEASON SHOULD INCREASE SIGNIFICANTLY. IN THAT EVENT, PRICES COULD EASE FURTHER AND SUBSTANTIAL CARRYOVER RESULT.

31. CONCLUSION. U.S. POLICY IS UNDERPINNED BY RECOGNITION THAT WE BEAR SPECIAL RESPONSIBILITY AS THE WORLD'S LARGEST EXPORTER OF FOOD. IN REMOVING DOMESTIC RESTRICTIONS ON FOOD PRODUCTION AND EXPANDING OUR FOOD AID SHIPMENTS, WE HAVE DEMONSTRATED THAT IT IS NOT US POLICY

TO USE FOOD AS A POLITICAL WEAPON. ALL DEVELOPED COUNTRIES ARE BEING CALLED UPON TO COOPERATE IN: (1) IMPROVING INFORMATION SHARING; (2) PROMOTING GREATER COORDINATION OF DOMESTIC AGRICULTURAL POLICIES; (3) ESTABLISHING FREER TRADE IN AGRICULTURAL COMMODITIES; (4) MAINTAINING GRAIN RESERVES FOR USE IN YEARS OF CROP SHORTFALL, AND (5) HELPING THE POOR COUNTRIES INCREASE THEIR FOOD PRODUCTION. BUT THE DEVELOPED COUNTRIES CAN ONLY DO SO MUCH. IT IS UP TO LDCS, BUILDING ON SIGNIFICANT PROGRESS MADE IN 1960'S, TO GIVE HIGHER PRIORITY LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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IN THEIR DEVELOPMENT PROGRAMS TO ACCELERATING PRESENT RATES OF AGRICULTURAL PRODUCTION. OTHERWISE, SPECTER OF FUTURE UNMANAGEABLE FOOD TRANSFER PROBLEM COULD BECOME REALITY. KISSINGER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 26 AUG 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, FOOD ASSISTANCE
Control Number: n/a
Copy: SINGLE
Draft Date: 24 JUN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: KelleyW0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE148311
Document Source: ADS
Document Unique ID: 00
Drafter: EB:OFP STAFF/JPLACKE:BMH
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Film Number: D750219-0958
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t197506102/baaaaanmh.tel
Line Count: 562
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Office: ORIGIN EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 11
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: KelleyW0
Review Comment: n/a
Review Content Flags:
Review Date: 27 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <27 MAY 2003 by ifshinsr>; APPROVED <21 OCT 2003 by KelleyW0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: n/a
TAGS: EAGR, EAID, US, XX
To: ALL DIPLOMATIC AND CONSULAR POSTS
USNMR SHAPE
USCG FOR POLAD
TUNIS BY POUCH
NDJAMENA BY POUCH
XMT TUNIS

NDJAMENA

Type: TE

Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006